

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Memphis, Michigan</u>	County Macomb and St. Clair
Audit Date June 30, 2004	Opinion Date July 20, 2004	Date Accountant Report Submitted To State: August 31, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Memphis, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Memphis, Michigan

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Memphis, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Memphis' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Memphis' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and Members
of the City Council
City of Memphis, Michigan

As described in Note I, the City implemented the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

July 20, 2004

City of Memphis, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Memphis' financial performance provide an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of the City of Memphis on a government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements, also slightly changed from prior years, follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the City's operations in more detail than government-wide financial statements.

The City of Memphis as a Whole

In a condensed format, the table below shows the comparison of net assets as of June 30, 2004 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current assets	\$ 609,000	\$ 635,000	\$ 503,000	\$ 457,000	\$ 1,112,000	\$ 1,092,000
Noncurrent assets - Capital assets	914,000	782,000	1,458,000	1,503,000	2,372,000	2,285,000
Total assets	1,523,000	1,417,000	1,961,000	1,960,000	3,484,000	3,377,000
Liabilities						
Current liabilities	73,000	27,000	3,000	3,000	76,000	30,000
Long-term liabilities	149,000	154,000	720,000	760,000	869,000	914,000
Total liabilities	222,000	181,000	723,000	763,000	945,000	944,000
Net Assets						
Invested in capital assets - Net of related debt	813,000	673,000	738,000	743,000	1,551,000	1,416,000
Restricted	151,000	283,000	-	-	151,000	283,000
Unrestricted	337,000	280,000	500,000	454,000	837,000	734,000
Total net assets	<u>\$ 1,301,000</u>	<u>\$ 1,236,000</u>	<u>\$ 1,238,000</u>	<u>\$ 1,197,000</u>	<u>\$ 2,539,000</u>	<u>\$ 2,433,000</u>

City of Memphis, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets increased 4.3 percent from a year ago, increasing from \$2,433,000 to \$2,539,000. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$65,000 in net assets or 5.1 percent during the fiscal year ended June 30, 2004. This increase was the result of the elimination of one position in the police department and the receipt of a fire operations and firefighter safety grant from the Federal Emergency Management Agency, which was used to purchase fire safety equipment. The business-type activities, consisting of the City's Water and Sewer Fund, experienced a 3.4 percent increase in net assets, rising from \$1,197,000 to \$1,238,000. This increase was primarily due to positive results from operations during the year.

Unrestricted net assets for the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, totaled \$337,000 at June 30, 2004, as compared with \$280,000 in the prior year. The increase in unrestricted net assets is attributed to the positive operating results in the General Fund.

The following table shows the changes in net assets for the year ended June 30, 2004:

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 157,000	\$ 307,000	\$ 464,000
Operating grants and contributions	132,000	-	132,000
Capital grants and contributions	59,000	-	59,000
General revenues:			
Property taxes	387,000	-	387,000
State-shared revenues	143,000	-	143,000
Cable franchise fees	5,000	-	5,000
Investment earnings	8,000	4,000	12,000
Miscellaneous	12,000	4,000	16,000
Total revenue	903,000	315,000	1,218,000

City of Memphis, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities	Business-type Activities	Total
Program Expenses			
General government	\$ 137,000	\$ -	\$ 137,000
Public safety	418,000	-	418,000
Public works	244,000	-	244,000
Recreation and culture	33,000	-	33,000
Interest on long-term debt	6,000	-	6,000
Water and sewer	-	274,000	274,000
Total program expenses	838,000	274,000	1,112,000
Change in Net Assets	65,000	41,000	106,000
Net Assets - Beginning of year	1,236,000	1,197,000	2,433,000
Net Assets - End of year	<u>\$ 1,301,000</u>	<u>\$ 1,238,000</u>	<u>\$ 2,539,000</u>

Governmental Activities

Revenues for the City's governmental activities totaled approximately \$903,000. These revenue funds were utilized to provide essential City services including public safety, public works, library, and recreation activities.

Public safety (police and fire department) expenditures accounted for nearly 50 percent of the governmental activities operational expenditures for the year ended June 30, 2004. The public works and general government expenditures accounted for 29.2 percent and 16.3 percent, respectively, of the operating costs of the governmental activities.

During 2004, capital improvements in the governmental activities totaled approximately \$202,000, including road construction costs of \$97,000 and machinery and equipment purchases of \$84,000.

Business-type Activities

The City's business-type activities represent the Water and Sewer Enterprise Fund. The City provides water and sewer services to most, but not all, residents. Water and Sewer revenues totaled \$307,000 for the fiscal year ended June 30, 2004. Included in this amount are debt service fees totaling \$97,000 that are used to pay the principal and interest on the outstanding 1991 Water Bonds. The Water and Sewer Fund experienced an increase in net assets of \$41,000 during 2004.

City of Memphis, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local street revenue sharing. The City's major funds for 2004 include the General Fund, the Major Street Fund, and the Water and Sewer Fund.

The General Fund accounts for the majority of the City's governmental day-to-day services. The most significant of these are public safety (police and fire), which incurred expenditures of approximately \$418,000 in 2004. The general operating millage levied by the City supports these services. The Major Street Fund is used to account for maintenance and construction expenditures for streets designated as "major." Most of the activity in this fund is financed by State of Michigan Act 51 revenue sharing. During the year ended June 30, 2004, construction activity consisted of the Mill Street project.

General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. During 2004, the General Fund budget was amended to account for the receipt of the Federal Emergency Management Agency grant and related capital outlay activity.

Capital Asset and Debt Administration

As of June 30, 2004, the City had \$2,372,000 invested in a wide range of capital assets, including land, buildings, vehicles, fire equipment, computer equipment, and water and sewer lines. In addition, beginning in 2004, the City will now report governmental infrastructure assets, which include roads, sidewalks, and related assets. Total outlays for governmental infrastructure assets were \$97,000 in 2004. As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets acquired prior to July 1, 2003.

At June 30, 2004, the City has outstanding debt totaling \$102,000 and \$720,000 in the governmental activities and business-type activities, respectively, related to the acquisition of capital assets. The debt is payable through 2014. In addition, the City has \$47,000 of compensated absences reported in the governmental activities, representing accumulated sick leave. There were no new borrowings during 2004.

City of Memphis, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The City of Memphis, similar to most municipalities in the state of Michigan, continues to experience difficult financial times. The City currently levies the maximum amount of property taxes allowed under Proposal A and the Headlee Amendment, and has experienced reductions in state-shared revenue in recent years. While little or no growth has been experienced in revenues, most expenditures continue to grow at the rate of inflation or higher (in the case of health insurance expenditures). The City has responded to this imbalance between revenue and expenditures through a reduction of discretionary costs, principally capital outlay. The City expects this financial trend to continue into the near future.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the administrative offices at city hall.

City of Memphis, Michigan

Statement of Net Assets June 30, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 543,436	\$ 424,529	\$ 967,965
Receivables:			
Accounts	18,178	66,892	85,070
State of Michigan	45,072	-	45,072
Prepaid expenses and other assets	1,711	11,675	13,386
Capital assets (Note 4):			
Assets not depreciated	38,000	11,355	49,355
Assets being depreciated	876,447	1,446,893	2,323,340
Total assets	1,522,844	1,961,344	3,484,188
Liabilities			
Accounts payable and accrued liabilities	60,770	2,964	63,734
Deferred revenue (Note 6)	12,441	-	12,441
Noncurrent liabilities (Note 7):			
Due within one year	7,803	40,000	47,803
Due in more than one year	141,028	680,000	821,028
Total liabilities	222,042	722,964	945,006
Net Assets			
Invested in capital assets - Net of related debt	812,674	738,248	1,550,922
Restricted - Streets	150,955	-	150,955
Unrestricted	337,173	500,132	837,305
Total net assets	\$ 1,300,802	\$ 1,238,380	\$ 2,539,182

City of Memphis, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 137,424	\$ 10,110	\$ -	\$ -
Public safety	417,646	101,368	44,930	58,718
Public works	244,545	33,273	87,142	-
Recreation and culture	32,916	12,255	-	-
Interest on long-term debt	5,890	-	-	-
Total governmental activities	838,421	157,006	132,072	58,718
Business-type activities - Water and sewer	273,927	306,808	-	-
Total primary government	<u>\$ 1,112,348</u>	<u>\$ 463,814</u>	<u>\$ 132,072</u>	<u>\$ 58,718</u>
General revenues:				
Property taxes				
State-shared revenues				
Cable franchise fees				
Investment earnings				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - July 1, 2003				
Net Assets - June 30, 2004				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (127,314)	\$ -	\$ (127,314)
(212,630)	-	(212,630)
(124,130)	-	(124,130)
(20,661)	-	(20,661)
<u>(5,890)</u>	<u>-</u>	<u>(5,890)</u>
(490,625)	-	(490,625)
<u>-</u>	<u>32,881</u>	<u>32,881</u>
(490,625)	32,881	(457,744)
387,360	-	387,360
143,232	-	143,232
5,343	-	5,343
7,838	3,792	11,630
<u>11,669</u>	<u>4,494</u>	<u>16,163</u>
555,442	8,286	563,728
64,817	41,167	105,984
<u>1,235,985</u>	<u>1,197,213</u>	<u>2,433,198</u>
<u>\$ 1,300,802</u>	<u>\$ 1,238,380</u>	<u>\$ 2,539,182</u>

City of Memphis, Michigan

Governmental Funds Balance Sheet June 30, 2004

	Major Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street		
Assets				
Cash and cash equivalents (Note 3)	\$ 311,559	\$ 97,586	\$ 134,291	\$ 543,436
Receivables:	-	-		
Accounts	18,178	-	-	18,178
State of Michigan	38,319	5,167	1,586	45,072
Prepaid expenses	1,638	-	73	1,711
Total assets	<u>\$ 369,694</u>	<u>\$ 102,753</u>	<u>\$ 135,950</u>	<u>\$ 608,397</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 30,664	\$ 17,248	\$ 7,770	\$ 55,682
Deferred revenue (Note 6)	34,333	-	-	34,333
Total liabilities	64,997	17,248	7,770	90,015
Fund Balances				
Reserved for prepaid expenses	1,638	-	73	1,711
Unreserved and undesignated	303,059	85,505	-	388,564
Unreserved, reported in Special Revenue Funds	-	-	128,107	128,107
Total fund balances	<u>304,697</u>	<u>85,505</u>	<u>128,180</u>	<u>518,382</u>
Total liabilities and fund balances	<u>\$ 369,694</u>	<u>\$ 102,753</u>	<u>\$ 135,950</u>	<u>\$ 608,397</u>

City of Memphis, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2004

Total Fund Balances of Governmental Funds	\$ 518,382
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	914,447
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State revenue-sharing receivables collected more than 30 days after year end are not available to pay for current year expenditures	21,892
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Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Notes and bonds payable	(101,773)
Compensated absences	(47,059)

Accrued interest payable is not included as a liability in the governmental funds	<u>(5,087)</u>
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Net Assets of Governmental Activities	<u>\$ 1,300,802</u>
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City of Memphis, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street		
Revenue				
Property taxes	\$ 387,360	\$ -	\$ -	\$ 387,360
Federal sources	103,648	-	-	103,648
State sources	127,950	62,785	19,489	210,224
Licenses and permits	129,932	-	-	129,932
Interest and other	47,604	1,358	1,218	50,180
Total revenue	796,494	64,143	20,707	881,344
Expenditures				
General government:				
Administration	101,035	-	-	101,035
Assessment	5,881	-	-	5,881
Board of Review	472	-	-	472
Community center	5,491	-	-	5,491
City Hall	8,394	-	-	8,394
Planning Commission	1,020	-	-	1,020
Recordkeeping	-	5,395	1,900	7,295
Total general government	122,293	5,395	1,900	129,588
Public safety:				
Police department	270,094	-	-	270,094
Fire department	105,120	-	-	105,120
FEMA Grant capital outlay	66,060	-	-	66,060
Fire hydrants	12,075	-	-	12,075
Ambulance service	2,250	-	-	2,250
Total public safety	455,599	-	-	455,599
Public works:				
Department of public works	89,558	-	-	89,558
Street lighting	16,687	-	-	16,687
Refuse collection	36,377	-	-	36,377
Construction	-	97,089	-	97,089
Engineering	-	56,412	17,147	73,559
Routine maintenance	-	14,636	10,592	25,228
Traffic services	-	1,619	149	1,768
Winter maintenance	-	5,548	5,269	10,817
Total public works	142,622	175,304	33,157	351,083
Recreation and culture:				
Library	22,682	-	-	22,682
Recreation department	17,453	-	-	17,453
Total recreation and culture	40,135	-	-	40,135
Total expenditures	760,649	180,699	35,057	976,405

City of Memphis, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Continued) Year Ended June 30, 2004

	Major Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street		
Excess of Revenue Over (Under) Expenditures	\$ 35,845	\$ (116,556)	\$ (14,350)	\$ (95,061)
Other Financing Sources (Uses)				
Transfers in	48,577	-	55,183	103,760
Transfers out	(45,183)	(10,000)	(48,577)	(103,760)
Total other financing sources (uses)	3,394	(10,000)	6,606	-
Net Change in Fund Balances	39,239	(126,556)	(7,744)	(95,061)
Fund Balances - Beginning of year	265,458	212,061	135,924	613,443
Fund Balances - End of year	\$ 304,697	\$ 85,505	\$ 128,180	\$ 518,382

City of Memphis, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances of Governmental Funds **\$ (95,061)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (69,243)	
Capital outlay	<u>201,916</u>	132,673

State-shared revenue received more than 30 days after year end is reported as revenue in the statement of activities	21,892
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Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	356
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	7,468
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Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(2,511)</u>
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Change in Net Assets of Governmental Activities **\$ 64,817**

City of Memphis, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Net Assets June 30, 2004

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 424,529
Accounts receivable	66,892
Prepaid expenses and other assets	<u>11,675</u>

Total current assets 503,096

Capital assets - Net (Note 4) 1,458,248

Total assets 1,961,344

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	2,964
Current portion of long-term debt (Note 7)	<u>40,000</u>

Total current liabilities 42,964

Long-term debt - Net of current portion (Note 7) 680,000

Total liabilities 722,964

Net Assets

Invested in capital assets - Net of related debt	738,248
Unrestricted	<u>500,132</u>

Total net assets \$ 1,238,380

City of Memphis, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2004

Operating Revenue

Water sales	\$ 108,263
Sewage disposal	91,498
Other	<u>14,147</u>
Total operating revenue	213,908

Operating Expenses

Wages	107,121
Supplies	987
Utilities	11,214
Repairs and maintenance	14,016
Equipment rental	13,157
Training and education	50
Contracted services	23,685
Insurance	2,293
Depreciation	48,039
Miscellaneous	<u>817</u>
Total operating expenses	<u>221,379</u>

Operating Loss (7,471)

Nonoperating Revenue (Expenses)

Interest earned	3,792
Interest expense	(52,148)
Paying agent fees	(400)
Debt service fees	<u>97,394</u>
Total nonoperating revenue	<u>48,638</u>

Change in Net Assets 41,167

Net Assets - Beginning of year 1,197,213

Net Assets - End of year \$ 1,238,380

City of Memphis, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2004

Cash Flows from Operating Activities

Receipts from customers	\$ 132,869
Payments to other suppliers and employees	<u>(89,552)</u>
Net cash provided by operating activities	43,317

Cash Flows from Capital and Related Financing Activities

Principal and interest paid on capital debt	(92,548)
Purchase of capital assets	(3,691)
Collection of debt service fees	<u>97,394</u>
Net cash provided by capital and related financing activities	1,155

Cash Flows from Investing Activities - Interest received on investments

3,792

Net Increase in Cash and Cash Equivalents

48,264

Cash and Cash Equivalents - Beginning of year

376,265

Cash and Cash Equivalents - End of year

\$ 424,529

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (7,471)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	48,039
Changes in assets and liabilities:	
Receivables	1,865
Prepays	458
Accounts payable and accrued liabilities	<u>426</u>
Net cash provided by operating activities	<u><u>\$ 43,317</u></u>

City of Memphis, Michigan

Fiduciary Fund - Agency Fund Statement of Assets and Liabilities June 30, 2004

	<u>Agency Fund</u>
Assets - Cash and cash equivalents (Note 3)	<u><u>\$ 9,262</u></u>
Liabilities - Due to other governmental units	<u><u>\$ 9,262</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Memphis (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major governmental funds and major Enterprise Fund are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Major Street Fund - The Major Street Fund accounts for the development of major roads and related construction and administrative expenses.

The City reports the following major Enterprise Fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund type:

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Residual balances outstanding between the governmental activities and the business-type activities, if any, are reported in the government-wide financial statements as "internal balances."

Property Taxes - Properties are assessed as of December 31 and the related property taxes become a lien at that time. These taxes are billed on July 1 of the following year and are due on August 31 with a final collection date of February 28 before they are added to the county tax rolls.

The 2003 taxable valuation of the City totaled \$24,311,000, on which ad valorem taxes levied consisted of 15.1195 mills for City operating purposes. The ad valorem taxes levied raised \$368,000 for City operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, utility systems, etc.), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Roads and sidewalks	20 years
Utility systems	50 to 70 years
Buildings and building improvements	20 to 50 years
Machinery and equipment	10 to 30 years
Vehicles	10 to 20 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick pay benefits. All sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when due for payment (generally for employee terminations as of year end).

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting Changes

GASB No. 34 - Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements. Changes to the City's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.
- The fund financial statements focus on major funds rather than fund types.
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure and other capital assets totaling approximately \$1,241,000 previously reported in the General Fixed Assets Account Group.
- The governmental activities column includes bonds and other long-term obligations totaling approximately \$154,000 previously reported in the General Long-term Debt Account Group.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Budgets for the fiscal year commencing July 1 are prepared by the city clerk/treasurer and adopted by the City Council.

The budget document presents information by fund, activity, and line item. The legal level of budgetary control adopted by the City Council is the activity level. Budget amendments were not significant during the year.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Amounts encumbered for purchase orders, contracts, and other commitments are not tracked during the year. Budget appropriations are considered to be spent only when an expenditure has been recognized (i.e., when goods are received or services are rendered).

Excess of Expenditures Over Appropriations in Budgeted Funds - There were no significant expenditure budget variances during the year.

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Cumulative expenditures over revenue - July 1, 2003	\$ (7,632)
2003-2004 building department activity:	
Permit revenue	\$ 4,537
Expenditures	<u>(6,125)</u>
Excess of expenditures over revenue	<u>(1,588)</u>
Cumulative expenditures over revenue - June 30, 2004	<u>\$ (9,220)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The City has adopted an investment policy in accordance with state law and management believes that the City's deposits and investments are in accordance with statutory authority.

At June 30, 2004, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Fund
Cash and cash equivalents	\$ 543,436	\$ 424,529	\$ 967,965	\$ 9,262

Deposits and investments are categorized as follows in accordance with GASB Statement No. 3:

	Primary Government	Fiduciary Fund
Bank deposits (checking accounts)	\$ 75,008	\$ 9,262
Investments in securities, mutual funds, and similar vehicles	892,807	-
Petty cash or cash on hand	150	-
Total	<u>\$ 967,965</u>	<u>\$ 9,262</u>

Deposits - The bank balance of the City's primary government and fiduciary fund deposits at June 30, 2004 totaled \$163,608, of which \$100,000 was covered by federal depository insurance.

Investments - Investments consist of bank investment pools totaling \$892,807. Investments are normally categorized to give an indication of the level of credit risk. Investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares. To the extent that cash from various funds has been pooled in an investment, the related investment income is allocated to each fund based on relative participation in the pool.

City of Memphis, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated - Land	\$ 38,000	\$ -	\$ -	\$ 38,000
Capital assets being depreciated:				
Roads and sidewalks	-	97,089	-	97,089
Vehicles	481,929	21,000	-	502,929
Buildings	416,000	-	-	416,000
Machinery and equipment	343,100	83,827	-	426,927
Subtotal	1,241,029	201,916	-	1,442,945
Accumulated depreciation:				
Roads and sidewalks	-	2,427	-	2,427
Vehicles	150,416	30,069	-	180,485
Buildings	190,400	10,180	-	200,580
Machinery and equipment	156,439	26,567	-	183,006
Subtotal	497,255	69,243	-	566,498
Net capital assets being depreciated	743,774	132,673	-	876,447
Net capital assets	\$ 781,774	\$ 132,673	\$ -	\$ 914,447
	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type activities:				
Capital assets not being depreciated - Land	\$ 11,355	\$ -	\$ -	\$ 11,355
Capital assets being depreciated:				
Utility system	1,849,821	3,691	-	1,853,512
Buildings and improvements	175,106	-	-	175,106
Machinery and equipment	177,982	-	-	177,982
Subtotal	2,202,909	3,691	-	2,206,600
Accumulated depreciation:				
Utility system	504,531	33,895	-	538,426
Buildings and improvements	98,817	4,111	-	102,928
Machinery and equipment	108,320	10,033	-	118,353
Subtotal	711,668	48,039	-	759,707
Net capital assets being depreciated	1,491,241	(44,348)	-	1,446,893
Net capital assets	\$ 1,502,596	\$ (44,348)	\$ -	\$ 1,458,248

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the governmental activities as follows:

General government	\$ 7,563
Public safety	41,591
Public works	12,596
Recreation and culture	<u>7,493</u>
Total governmental activities	<u>\$ 69,243</u>

Note 5 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers Out			Total
	General Fund	Major Street Fund	Nonmajor Governmental Funds	
Transfers in:				
General Fund	\$ -	\$ -	\$ 48,577	\$ 48,577
Nonmajor governmental funds	<u>45,183</u>	<u>10,000</u>	<u>-</u>	<u>55,183</u>
Total	<u>\$ 45,183</u>	<u>\$ 10,000</u>	<u>\$ 48,577</u>	<u>\$ 103,760</u>

The transfer out from the Major Street Fund represents a transfer of Act 51 revenue to the Local Street Fund.

The remaining transfers represent discretionary funds to be used for capital improvements. Transfers out from the General Fund are to the various department equipment and replacement funds for future purposes. Transfers in to the General Fund are from the various department equipment and replacement funds for capital outlay expenditures made in the current period.

City of Memphis, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2004, the components of deferred revenue are as follows:

	Unavailable	Unearned
Federal grant payments received prior to meeting all eligibility requirements	\$ -	\$ 12,441
State revenue-sharing payment not received until more than 30 days after year end	21,892	-
Total	<u>\$ 21,892</u>	<u>\$ 12,441</u>

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

Long-term debt activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
Installment purchase agreement - 2001 Library acquisition							
Amount of issue - \$154,000		\$7,392 -					
Maturing through 2014	5.70%	\$12,963	\$ 109,240	\$ -	\$ 7,467	\$ 101,773	\$ 7,803
Accrued compensated absences	-	-	44,548	2,510	-	47,058	-
Total governmental activities			<u>\$ 153,788</u>	<u>\$ 2,510</u>	<u>\$ 7,467</u>	<u>\$ 148,831</u>	<u>\$ 7,803</u>
Business-type activities - 1991 General Obligation Water Bonds - Water and Sewer Fund Bonds:							
Amount of Issue - \$995,000	6.50% -	\$40,000 -					
Maturing through 2014	7.00%	\$90,000	\$ 760,000	\$ -	\$ 40,000	\$ 720,000	\$ 40,000

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 7,803	\$ 5,909	\$ 13,712	\$ 40,000	\$ 49,548	\$ 89,548
2006	8,270	5,442	13,712	50,000	46,908	96,908
2007	8,748	4,964	13,712	55,000	43,558	98,558
2008	9,254	4,458	13,712	65,000	39,846	104,846
2009	9,778	3,934	13,712	70,000	35,426	105,426
2010-2014	57,920	10,455	68,375	440,000	93,496	533,496
Total	<u>\$ 101,773</u>	<u>\$ 35,162</u>	<u>\$ 136,935</u>	<u>\$ 720,000</u>	<u>\$ 308,782</u>	<u>\$ 1,028,782</u>

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and general liability and participates in the Michigan Municipal League Risk Pool for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Retirement Plan

The City offers a SEP IRA defined contribution retirement plan to all full-time employees with at least one year of service time. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by City Council resolution, the City contributes 4 percent of covered payroll to the plan and contributions totaled approximately \$11,800 for the year ended June 30, 2004.

Required Supplemental Information

City of Memphis, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 376,764	\$ 376,764	\$ 387,360	\$ 10,596
Federal sources	128,519	199,678	103,648	(96,030)
State sources	128,303	134,210	127,950	(6,260)
Licenses and permits	124,802	124,802	129,932	5,130
Interest and other	24,577	29,977	47,604	17,627
Total revenue	782,965	865,431	796,494	(68,937)
Expenditures				
General government:				
Administration	105,361	105,361	101,035	4,326
Assessment	6,325	6,325	5,881	444
Board of Review	725	725	472	253
Community center	4,572	4,572	5,491	(919)
City Hall	7,935	7,935	8,394	(459)
Planning Commission	1,380	1,380	1,020	360
Total general government	126,298	126,298	122,293	4,005
Public safety:				
Police department	274,641	275,041	270,094	4,947
Fire department	88,793	108,463	105,120	3,343
FEMA Grant capital outlay	-	79,066	66,060	13,006
Fire hydrants	9,520	9,520	12,075	(2,555)
Ambulance service	2,250	2,250	2,250	-
Total public safety	375,204	474,340	455,599	18,741
Public works:				
Department of Public Works	69,261	69,261	89,558	(20,297)
Community Development Block Grant	85,000	85,000	-	85,000
Street lighting	18,350	18,350	16,687	1,663
Refuse collection	33,694	33,694	36,377	(2,683)
Total public works	206,305	206,305	142,622	63,683
Recreation and culture:				
Library	21,546	21,546	22,682	(1,136)
Recreation department	15,268	18,268	17,453	815
Total recreation and culture	36,814	39,814	40,135	(321)
Total expenditures	744,621	846,757	760,649	86,108
Excess of Revenue Over (Under) Expenditures	38,344	18,674	35,845	17,171
Other Financing Sources (Uses)				
Transfers in	-	19,670	48,577	28,907
Transfers out	(40,856)	(40,856)	(45,183)	(4,327)
Total other financing sources (uses)	(40,856)	(21,186)	3,394	24,580
Net Change in Fund Balance	(2,512)	(2,512)	39,239	41,751
Fund Balance - Beginning of year	265,458	265,458	265,458	-
Fund Balance - End of year	<u>\$ 262,946</u>	<u>\$ 262,946</u>	<u>\$ 304,697</u>	<u>\$ 41,751</u>

City of Memphis, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 52,000	\$ 52,000	\$ 62,785	\$ 10,785
Interest and rent	950	950	1,358	408
Total revenue	52,950	52,950	64,143	11,193
Expenditures				
General government - Recordkeeping	5,646	5,646	5,395	251
Public works:				
Construction	75,000	75,000	97,089	(22,089)
Engineering	20,000	55,000	56,412	(1,412)
Routine maintenance	26,004	26,004	14,636	11,368
Traffic services	2,600	2,600	1,619	981
Winter maintenance	8,700	8,700	5,548	3,152
Total public works	132,304	167,304	175,304	(8,000)
Total expenditures	137,950	172,950	180,699	(7,749)
Excess of Expenditures Over Revenue	(85,000)	(120,000)	(116,556)	3,444
Other Uses - Transfer out	(10,000)	(10,000)	(10,000)	-
Net Change in Fund Balance	(95,000)	(130,000)	(126,556)	3,444
Fund Balance - Beginning of year	212,061	212,061	212,061	-
Fund Balance - End of year	<u>\$ 117,061</u>	<u>\$ 82,061</u>	<u>\$ 85,505</u>	<u>\$ 3,444</u>

Other Supplemental Information

City of Memphis, Michigan

	Special Revenue Funds				
	Local Street	Police Equipment and Replacement	Fire Equipment and Replacement	DPW Equipment and Replacement	Clerk/Treasurer Equipment and Replacement
Assets					
Cash and cash equivalents	\$ 71,634	\$ 9,879	\$ 43,975	\$ 538	\$ 54
Receivables - State of Michigan	1,586	-	-	-	-
Prepaid expenses	73	-	-	-	-
Total assets	<u>\$ 73,293</u>	<u>\$ 9,879</u>	<u>\$ 43,975</u>	<u>\$ 538</u>	<u>\$ 54</u>
Liabilities and Fund Balances					
Liabilities - Accounts payable and accrued liabilities	\$ 7,770	\$ -	\$ -	\$ -	\$ -
Fund Balances					
Reserved for prepaid expenses	73	-	-	-	-
Unreserved	<u>65,450</u>	<u>9,879</u>	<u>43,975</u>	<u>538</u>	<u>54</u>
Total fund balances	<u>65,523</u>	<u>9,879</u>	<u>43,975</u>	<u>538</u>	<u>54</u>
Total liabilities and fund balances	<u>\$ 73,293</u>	<u>\$ 9,879</u>	<u>\$ 43,975</u>	<u>\$ 538</u>	<u>\$ 54</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Library Equipment and Replacement	Total Nonmajor Governmental Funds
\$ 8,211	\$ 134,291
-	1,586
-	73
<u>\$ 8,211</u>	<u>\$ 135,950</u>
\$ -	\$ 7,770
-	73
<u>8,211</u>	<u>128,107</u>
<u>8,211</u>	<u>128,180</u>
<u>\$ 8,211</u>	<u>\$ 135,950</u>

City of Memphis, Michigan

	Special Revenue Funds				
	Local Roads	Police Equipment and Replacement	Fire Equipment and Replacement	DPW Equipment and Replacement	Clerk/Treasurer Equipment and Replacement
Revenue					
State sources	\$ 19,489	\$ -	\$ -	\$ -	\$ -
Interest and other	591	58	419	92	-
Total revenue	20,080	58	419	92	-
Expenditures					
General government - Recordkeeping	1,900	-	-	-	-
Public works:					
Engineering	17,147	-	-	-	-
Routine maintenance	10,592	-	-	-	-
Traffic services	149	-	-	-	-
Winter maintenance	5,269	-	-	-	-
Total public works	33,157	-	-	-	-
Total expenditures	35,057	-	-	-	-
Excess of Revenue Over (Under)					
Expenditures	(14,977)	58	419	92	-
Other Financing Sources (Uses)					
Transfers in	10,000	-	33,183	8,000	-
Transfers out	-	-	(27,577)	(21,000)	-
Total other financing sources (uses)	10,000	-	5,606	(13,000)	-
Net Change in Fund Balances	(4,977)	58	6,025	(12,908)	-
Fund Balances - Beginning of year	70,500	9,821	37,950	13,446	54
Fund Balances - End of year	\$ 65,523	\$ 9,879	\$ 43,975	\$ 538	\$ 54

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Library Equipment and Replacement	Total Nonmajor Governmental Funds
\$ -	\$ 19,489
58	1,218
58	20,707
-	1,900
-	17,147
-	10,592
-	149
-	5,269
-	33,157
-	35,057
58	(14,350)
4,000	55,183
-	(48,577)
4,000	6,606
4,058	(7,744)
4,153	135,924
\$ 8,211	\$ 128,180

July 20, 2004

Honorable Mayor and
Members of the City Council
City of Memphis
35095 Potter Street
Memphis, MI 48041

Dear Mayor and Members of the City Council:

We have recently completed our audit of the financial statements of the City of Memphis for the year ended June 30, 2004. In addition to the financial report, we offer the following items for your consideration:

NEW FINANCIAL STATEMENT FORMAT (GASB 34)

As you are aware, Governmental Accounting Standards Board (GASB) Statement No. 34 was implemented for the City's 2004 fiscal year. GASB 34 has dramatically changed the look and feel of the financial statements. While the financial statements retain an element of familiarity with the continued reporting of fund based information, there are several additions and changes that provide information never before presented in the City's annual financial report. A brief summary of the changes are as follows:

- Management Discussion and Analysis (MD&A): The MD&A provides a high-level overview of the City's financial position and results of operations, with a focus on the government-wide financial statements.
- Government-Wide Financial Statements: These additional statements adjust the normal fund-based statements into a combined, full-accrual format (similar to for-profit commercial enterprises). This allows a financial statement reader to see the City from a longer term, economic perspective (i.e. are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's overall financial picture.
- Focus on Major Funds: The fund based financial statements now focus on the City's most significant funds (major funds). For 2004 the City's major governmental funds are the General Fund and the Major Street Fund; the City's major enterprise fund is the Water and Sewer Fund.
- Budget Comparison: A financial statement reader will now be able to view not only the actual revenues and expenditures for the City's major governmental funds as compared to the current budget, but also as compared to the original budget.

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over City assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the City's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit", the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with key members of the administration and other employees throughout the organization; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

OVERVIEW OF GENERAL FUND FINANCIAL CONDITION

During the year ended June 30, 2004, the City's financial condition improved as General Fund revenues exceeded expenditures by approximately \$39,000. As a result, fund balance at June 30, 2003, increased to approximately \$305,000, of which \$2,000 is reserved and designated for specific purposes and \$303,000 is unreserved and undesignated.

In comparison with the final amended 2003-2004 budget, fund balance at June 30, 2004, is approximately \$42,000 higher than anticipated. While a portion of the excess is attributed to certain revenue accounts, most of the City's departments were near or below budget, which accounted for the remaining excess. We compliment the City Council and administration for their success in planning and monitoring the budget.

The City continues to be faced with budgetary challenges. Many challenges, including further reductions in State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in property tax revenue, and future capital equipment and infrastructure needs, are characteristics of the City and its physical framework. The maintenance of an adequate level of working capital is paramount to the City's ability to meet financial challenges without affecting the level of services provided to citizens or the ability to fund future obligations.

STATE REVENUE SHARING

The City has continued to feel the effects of the sluggish State economy. Reduced sales tax collections and significant budget shortfalls at the State of Michigan negatively impact the City as a result of reduced revenue sharing payments. As you are aware, revenue sharing payments are funded solely through sales tax collections. Budget cuts to the statutory portion of revenue sharing made by the State have further compounded the effect of reduced sales tax collections. State shared revenue payments, which totaled approximately 15 percent of the 2004 General Fund Budget, decreased from the payments received in 2003 by approximately 4 percent. Based on the current projections provided by the State of Michigan, revenue sharing payments are expected to be reduced by an additional 4 percent in 2004-2005.

Honorable Mayor and
Members of the City Council
City of Memphis

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July 20, 2004

It is uncertain at this point in time whether sales tax collections will rebound in 2004-2005 or whether the State will make future accommodations to replace revenue lost as a result of budget cuts. As such, we recommend that the City continually monitor the impact of changes to projected revenue sharing payments on the General Fund budget. In addition to the periodic updates that we provide to the City, updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697.

CREDIT CARD POLICY


Credit cards are used by the City as a matter of convenience to make small purchases that otherwise would be made from a petty cash fund. The use of credit cards can have a positive effect on internal control because it limits the number of transactions that would otherwise be handled in cash. However, because of the relative ease for which credit cards could be used for unauthorized purposes, State law (P.A. 266 of 1995), requires that a policy be adopted by the City Council that governs the use of credit cards by City employees. The policy is required to include provisions covering the employees responsible for monitoring credit card use and compliance with the City's policies; minimum documentation guidelines purchases made with credit cards; and for the establishment of internal controls to monitor the use of credit cards.

It is our understanding as of the date of this letter that the City Council has not adopted a policy governing the use of credit cards. We recommend that such a policy be adopted in order to comply with State law. We would be pleased to assist the City in the creation of the policy and the related internal accounting controls.

We would like to thank the City for the continued opportunity to serve as your auditors and for the assistance and cooperation extended to us throughout this audit. We would be happy to answer any questions you have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



David V. Grubb



Christina M. Kostiuk